



Column / Don Newman

## Much Ado About Nothing

It would be nice to report that Finance Minister Bill Morneau's March 22 budget was a document of Shakespearean proportions. But a report like that would hinge on the conclusion that the Shakespeare play it most resembled is "Much Ado About Nothing."

This budget was mostly a restatement of what the Trudeau government outlined in its first budget a year ago. A lot of trees were turned into paper to print large portions of last year budget again, in the supporting documents for this year's.

The budget speech the minister delivered was particularly anodyne. It was devoid of the numbers that traditionally are sprinkled through the speech; the deficit forecast, the expected growth rate of the Gross Domestic Product, and the predicted rate of inflation in the next year.

Instead, the central message in the budget was a reprise of the oft-stated fact that innovation is critical to creating the industries of the 21st century economy, and continuing education and skills training are necessary to prepare the workers that will be employed in them.

Significant money has been set aside to facilitate both. But if you look at spending on innovation, a lot of that money was in fact already committed.

The best example is the plan to create what are known as advanced clusters. These are high-tech groupings of industry, academia, skilled workers and the capital to underwrite the cutting edge work they will be doing.

The government is setting aside \$950 million over five years to foster these mini-Silicon Valleys. But it turns out that is not new money. Of the total amount, \$800 million of the money was announced in last year's budget, and the other \$150 million was announced in the fiscal update in November of 2016.

So how are we to understand such a bland offering? I think the only way is to view it as Act One in a two-act performance that will reach its climax with the finance minister's fiscal update next November.

Like any good drama, the first act laid out some of the dilemmas that will have to be resolved by the final curtain. Particularly the dilemma of changing the tax system.

In the run-up to this budget the government had hinted it was planning to tax more of the capital gains people make on investments. And it was also looking at doing away with the tax benefits some families can achieve by organizing themselves into personal corporations.

But it didn't do either. Instead, it said both decisions and other possible tax changes will be delayed until a review is completed later this year.

And more importantly than what the review finds out about Canadian taxes, the review will buy time for the government to find out what President Donald Trump and the U.S. Congress are doing with taxes in their budget. If Trump makes good on his promise to slash personal income taxes in the U.S., then Ottawa may be forced into a race for the bot-

tom, and if not lower, then at least not raise taxes on the more affluent.

The entrepreneurs Canada needs to attract often have much of their compensation in stock options, which they sell when the stock price rises and then pay the lower capital gains tax on their income. Likewise, some of these same people have organized their affairs into personal corporations and take their income out as dividends at a lower tax rate than if it were a salary.

Whether Canadian-born or from somewhere else, these people are highly mobile. They are likely to set up operations in the most tax friendly locale they can find. How that is resolved could be a key to the success of the government's strategy.

And there is one more thing to add to the Act Two drama of this budget and financial update performance.

By the time of the update both the Conservatives and the New Democrats will have new, permanent leaders. Both parties will have selected the person that will lead them into the next federal election in October 2019. And by November, we will be closer to that next election than we are to the last.

At that point, instead of "Much Ado About Nothing" on the country's political playbill, Canadians can get ready for a full-blown performance of "The Tempest." **P**

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